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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)
)
Implementation of Section 309(j)) MM Docket No. 97-234
of the Communications Act)
-- Competitive Bidding for)
Commercial Broadcast and)
Instructional Television Fixed)
Service Licenses)
)
Reexamination of the Policy) GC Docket No. 92-52
Statement on Comparative)
Broadcast Hearings)
)
Proposals to Reform the) GEN Docket No. 90-264
Commission's Comparative Hearing)
Process to Expedite the)
Resolution of Cases)

COMMENTS OF J. MCCARTHY MILLER
AND BILTMORE FOREST BROADCASTING FM, INC.

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January 26, 1998

No. of Copies rec'd. 045
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EXECUTIVE SUMMARY

- The delay in resolving comparative cases has been so extreme as to constitute a total failure of the decisional process and a denial of administrative justice. Speed is therefore of paramount importance in adopting a method for awarding these permits.

- The old comparative criteria are well abandoned. The new criteria should be objective, not subject to gamesmanship, easily discerned, and firmly enforced post-grant.

- The new criteria should emphasize a record of local broadcast service to the community by voting owners. Gamesmanship may be eliminated by evaluating all applicants on the basis of equity ownership rather than the voting/non-voting distinctions which complicated and corrupted past proceedings.

- Settlement of cases should be encouraged. To date, settlement of cases has been impaired by the absence of any knowledge about the decisional process to be employed. Applicants should therefore be given a last opportunity to resolve the cases after adoption of either new comparative criteria or auctions.

- If auctions are adopted, there are a number of defects in the auction proposal in the NPRM which should be eliminated to avoid unfairness. These defects are itemized in the text.

- Whether auctions or new comparative criteria are adopted, it is clear that all of the applications involved here are stale. The Commission should therefore give all applicants a

window to file updating or perfecting amendments without regard to the usual "good cause" criteria.

- If auctions are adopted, the Commission should maximize participation in the auction by permitting all pending applicants to participate, whether they have issues pending against them or not. Since only the qualifications of the auction winner need be adjudicated, it would be a waste of resources for the Commission to resolve those issues pre-auction. The Commission should await the outcome of the auction to determine any basic qualifications issues.

- Miller and BFBFM support the Commission's proposal to do away with the financial and site assurance components of the application. In an auction context where the winning bidder must pay for its authorization up front, the Commission has reasonable assurance that the bidder will not let its substantial investment go to waste.

- Preferences for small business entities in the form of a 50% discount off the bid price should be adopted to encourage wider diversification of broadcast stations and foster small business enterprise.

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)	

**COMMENTS OF J. MCCARTHY MILLER
AND BILTMORE FOREST BROADCASTING FM, INC.**

J. McCarthy Miller ("Miller") and Biltmore Forest Broadcasting FM, Inc. (BFBFM), by counsel, submit these Comments in response to the Notice of Proposed Rulemaking issued in the above-referenced Dockets. Miller is an applicant in his own right for a new FM radio station in Gulf Breeze, FL and is a principal in Biltmore Forest Broadcasting FM, Inc. ("BFBFM"), an applicant for a new FM station for Biltmore Forest, NC. He and BFBFM will therefore be directly or indirectly affected by the policy which the Commission adopts in these proceedings.

BACKGROUND

Miller comes to this proceeding bearing a multitude of scars from the Commission's comparative process. As an applicant in the Gulf Breeze, Fl case, he is a party to a group of mutually exclusive applications the first of which was filed in 1984. The case has now bounced back and forth between the ALJ and the Review Board for nearly 14 years without ever reaching the full Commission level. During this protracted process, a number of the parties to the proceeding simply succumbed to the passage of time. Sheer longevity has become the de facto deciding criterion in the case. It is inconceivable that a four party (now three party) proceeding to award an FM permit for a small city in Florida should take 14 years to resolve - with the end still not in prospect. This case is the epitome of what was wrong about the prior decision-making process and why it is essential that the process be expedited for those applicants who have endured more than a decade of delay.

Miller's other case, Biltmore Forest, is another example of the administrative process run amok. There the applications were filed in 1988. After years of litigation within the Commission, one applicant proceeded to construct and operate the station after the Court of Appeals had reversed the Commission's grant of its license. Complicated and multi-faceted proceedings ensued at the Court and the Commission, with the award of operating authority careening back and forth between the contestants in a

manner which must have the heads of the local community swimming. Because the imminence of a permanent award is so distant, the right to operate on a temporary basis has itself become a valuable prize. Again, the length of these proceedings may well exceed the lifespan of many of the litigants in that case.

In both cases the gamesmanship spawned by the Anax^{1/} decision has led to bizarre and unnatural ownership structures which could not stand the light of day nor the test of time. The hearing process, with its emphasis on issue enlargement, has led to assigning an exaggerated importance to issues such as "site assurance" and "financial assurance", issues which in real life are either met or not met as the economic situation dictates: the "reasonable assurances" obtained for FCC filing purposes bear almost no relation to the actual sites or actual financial arrangements relied upon by applicants once they become permittees. Yet the Commission has steadfastly continued to inject these elements into the hearing process with the resulting decade-long delay found in the Gulf Breeze case.

The cost of these cases to the litigants has been staggering. In Gulf Breeze, we estimate that well over \$600,000 has been spent by the four original applicants. In the Biltmore Forest case - where there were originally 13 applicants - the total legal fees have easily exceeded two million dollars, with the

^{1/} Anax Broadcasting, Inc., 87 F.C.C. 2d 483 (1981).

figure growing every day. If the Commission decides to adopt auctions, there are strong equitable reasons to treat these ancient applicants as being in a separate category from new filers and from those pre-July, 1997 applicants who have not been through the hearing crucible.

II. A Rational and Sustainable Comparative Criterion

It is with some reluctance that Miller and BFBFM hazard a basis for a new comparative evaluation of applicants. We understand that any new criteria are likely to be immediately attacked in Court by the applicants who come out on the short end. The judicial appeal process will necessarily consume another couple of years, and any new criteria are likely to be looked at with considerable skepticism by the Court of Appeals. The adoption of new criteria thus will almost certainly prolong the day of ultimate reckoning in the very cases where a speedy resolution is most called for. Nevertheless, Miller and BFBFM do feel that all applicants are not created equal, that the FCC can make reasonable distinctions among them, and that this process can be completed in an expeditious manner. While it is the applicants who have been through the hearing pipeline who have the strongest equitable claim to be evaluated on their merits, we see no reason why later filed applicants should also not be so evaluated if the Commission can in fact devise criteria which select the best applicant and which can be sustained in court. In other words, if there are sustainable

comparative criteria out there, there is no reason why they should only be applied to a small subset of ancient broadcast applicants; all communities should garner the benefit of having the best qualified applicant in their community be awarded the license. The key is to accomplish the evaluation quickly with a minimum of extraneous issues being raised.

It is Miller's and BFBFM's considered opinion, based on the proceedings they and their venerable counsel have been involved in, that the Court was right to scrap the criteria which were enunciated in the old Policy on Comparative Broadcast Hearings. While the initial concept held plausible public interest benefits - trying to maximize responsive local station owners working at stations, new media voices, broadcast experience, diversity of viewpoint - the entire process became twisted into a stylized game in which increasingly fine hairs with no real world significance were being split. Did the owner live just inside or just outside the boundary of the city of license? Did he belong to the Elks Club and the Kiwanis Club? Did she have 7 years of broadcast experience or only 5? Did a non-voting limited partner make a suggestion about the partnership agreement or not?

What was worse, all of the proposals were prospective in nature and no effort was made to enforce them (other than a one year certification as to integration). An applicant who won a proceeding on the basis that it had no other media interests could

quickly acquire additional media interests after the award of the license with no penalty at all. Nor would it make sense to preclude a well qualified broadcaster from going ahead and acquiring additional stations if it could. Moreover, the comparative evaluation process required that applicants be comparatively "frozen" at some point in time. While this might have made sense when proceedings were completed within a few months or a year, it became increasingly divorced from reality when cases dragged out to five, ten and even fifteen years. The evaluation was being performed on fictional applicants who, because of the passage of time, no longer bore any relationship to the real world applicants.

Miller's and BFBFM's concept, then, is simple: make the comparison objective, make it fast, and make it permanent. To expedite resolution of cases that have already been through hearings, use those portions of the old criteria which have already been a matter of evidence and therefore need not be revisited in a hearing context. To these ends, we propose the following:

1. Applicants would be preferred on the basis of broadcast experience of their voting owners^{2/} as of the date of the

^{2/} Since non-voting shareholders or limited partners are by definition not significantly involved in station management, no purpose would be served by according a broadcast experience credit to those owners. By the same token, since voting owners will only get credit based on their actual equity ownership, there will be no need to engage in protracted inquiries into whether or not the applicant structure is a sham.

issuance of the Report and Order on the NPRM^{3/}. We believe that broadcast experience is an easily sustainable basis for comparison since it is a factor that a bank would look for in a station owner and which any reasonable person would look for in a manager of a station. It is a factor which, under normal circumstances, is likely to conduce to good station operations. Moreover, the Commission has always recognized experience as an enhancing factor under the old criteria. Thus, hearing records on this point would already be established. To the extent that a party's experience is in the service area of the proposed station, credit would be doubled to reflect the fact that experience in the actual community to be served necessarily implies a knowledge of the needs and interests of the community. As the Commission acknowledged in the past, experience is a temporary factor since inexperienced people will gain experience once they have a station. Nevertheless, at the outset the broadcaster with experience will have a significant advantage over one lacking that attribute, and that advantage should be recognized. It should be stressed that no integration per se would need to be proposed. The experienced owner's direct and acute interest in ensuring that the station is well run and responsive to community needs would manifest itself regardless of whether the experienced owner is working full-time or part-time at the station or simply supervising the station personnel.

^{3/} It is important that the evaluative situation be frozen on the day the Order is issued to prevent applicants from amending their applications to take advantage of the new criteria.

The evaluation would be quantified arithmetically based on (a) the years of experience, (b) the voting equity percentage, and (c) the local or non-local nature of the experience. Take a case where there are two applicants. Applicant ABC has three owners each owning equal shares. One owner has ten years of broadcast experience in another city, one has five years in the service area of the proposed station and the third has no experience at all. The applicant would receive a preference rating of 10 divided by three (reflecting his one-third ownership interest) for the first owner plus 10 for the second owner (five doubled due to its local nature) again divided by three, plus 0 for the third owner, for a total of $6 \frac{2}{3}$. Competing applicant XYZ might have one 25% owner with 20 years of non-local experience and a 95 % owner with 3 years of local experience. The result would be 5 (i.e., $20 \times .25$) plus 5.7 (i.e., $3 \times 2 \times .95$). Applicant XYZ would beat Applicant ABC by a definite, objectively quantifiable margin.^{4/}

2. Where hearings had already been held, the record would already be complete on this issue, an important factor in expediting resolution of the oldest cases. No supplementation would be allowed for information about principals whose broadcast records had previously been offered in evidence and subjected to analysis by other applicants. The applicants would be given 20

^{4/} To avoid controversy, years of experience would be rounded up or down to the nearest year.

days to present an analysis of the record data and present that in the form of a Supplemental Proposed Finding to the Commission. The Commission's ALJ pool would prepare a recommended decision for the Commission which would then, if acceptable, be adopted by the full Commission. This would expedite agency action by eliminating intervening decisions by delegated authorities.

3. Applicants would have to maintain the ownership structure on which they were awarded the preference for a period of at least one year. This tracks with the period which the Commission has required integration proponents to adhere to their integration commitments. The authorization would be conditioned on the maintenance of the ownership as proposed, and no deviation from that ownership (except for circumstances beyond the applicant's control)^{5/} would be permitted. This measure would ensure that applicants do not make meaningless or ephemeral ownership proposals, and that the public gets the full benefit of the broadcast experience for which the applicant was awarded the license. It would also meet the Bechtel Court's concern that past comparative criteria did not need to be adhered to.

Use of broadcast experience as the sole comparative criterion should have the benefit of meeting the tests established by the Court in its evaluation in Bechtel. The criterion is

^{5/} Examples include debilitating illness, death or other disability of the persons with broadcast experience. Financial "emergencies" would not be recognized; any attempt to sell the station before the 5 year period would simply be dismissed.

rationality and demonstrably related to good broadcast service and it is enforceable (as proposed here). Moreover, in Orion Communications, Ltd. v. FCC, slip opinion released December 19, 1997, the D.C. Court of Appeals pointed specifically to the broadcast experience of one of the applicants as a factor which should have been taken into account by the Commission in determining the public interest. Obviously, the Court feels that broadcast experience does have some predictive value.

Under this procedure, all of the cases which have already been through hearings could be resolved within 90 days of the Commission's adoption of the Order in this Docket. To speed the process, Miller and BFBFM would prefer to exclude any non-comparative issues from this evaluative exercise. However, since all applicants have been under a freeze with respect to issue enlargement since 1993, there would have to be some window in which applicants could raise any newly discovered matters with the Commission. The breadth of newly discovered matters (i.e., matters which were learned of or which occurred since the freeze was imposed) would be reduced significantly if the Commission eliminates site availability and financial qualifications as elements that need to be established at the pre-grant stage. See Section III, *infra*.

III. The Auction Alternative

In the event that the Commission decides that auctions are the most expeditious way to allocate these licenses, there are a number of provisions which we believe would make the auctions fairer.

1. Proceeds Apportioned to Losing Applicants. For applicants who have already been through a comparative hearing, the proceeds of the auction should be devoted first to paying off the application expenses of the surviving applicants, with any remainder going to the treasury. This proposal is unusual, but is called for under the unusual circumstances presented here. It is anticipated that there will be relatively few cases in this category remaining after the February 1 deadline for settlements. For those applicants, however, there will have been hundreds of thousands of dollars spent on a selectional method which will now be discarded. We know of no other situation where the government has forced applicants to go through a grueling and expensive application process, only to change the process entirely five or ten years later without any compensation or consideration for the expenses incurred.^{6/}

^{6/} The case of top 90 cellular applicants, Maxcell Telecom Plus, Inc. v. FCC, 815 F.2d 1551 (D.C. Cir. 1987), establishes that the Commission has the right to change the selectional process in mid-stream. However, in that case the applicants (other than the top 30 applicants who were not affected by the change) had not incurred substantial hearing expenses. The applicants there were more in the category of current applicants who have filed

According to Section 309(j) of the Communications Act, the purpose of the auctions is to assign license rights expeditiously. In this small category of cases, it is just and fair that the applicants who have invested so much in a discarded process should recoup some or all of their expenses.

The process could be easily administered by simply having each non-winning applicant submit affidavits as required by the current settlement rule (73.3525) attesting to their reasonable and prudent expenses incurred in the prosecution of the application.^{7/} A pool of funds for all of the hearing cases would be established, and the losing applicants would be paid out of that pool. Any excess would go to the treasury. In the event of a shortfall, the funds would be divided proportionally among the losing applicants.

Adoption of this provision would go a very long way to earning the support of most of the applicants to the change from comparative hearings to auction since the enormous waste otherwise inherent in the conversion would be intolerable.

2. Auction Participants. If the Commission adopts the

applications but have not been designated for hearing. There was some "wasted" expense, but not on the exorbitant level borne by hearing veterans.

^{7/} We suggest that a cap of \$350,000 be established for recoupable expenses for radio applicants and \$500,000 for TV applicants to ensure that the pool is not drained by applicants who clearly were outside the norm of expenditures.

auction mechanism, we suggest that all currently pending applicants be allowed to participate, including those applicants who have basic issues pending against them, who have had issues resolved against them at a lower level but not passed on by the full Commission, or whose appeals of basic qualifying issues were remanded by the Court to the Commission. The general principle is to make the auction tent wide enough to embrace all applicants with a potential claim to be qualified applicants because the vast majority of applicants will not win the auction and their appeals or other issues will be moot. No one should have to waste time dealing with the issues in that case.

On the other hand, the tent should not be too big. There are some applicants in some of the older proceedings who have attempted to resurrect themselves following remand of the cases from the Court of Appeals. The Commission should make it very clear that applicants who have not preserved their rights to participate in the proceeding by appealing the denial of their application have no further status as applicants. Clarity on this point is essential, because otherwise numerous auctions will become disputed events, with some long dead parties claiming to have a right to participate. The participation of these entities could skew the auctions by bidding the prices up beyond what the valid participants (who, of course, had to bear additional expenses to preserve their applications) can afford to pay.

Finally, we note that Congress adopted an express limitation on eligibility to participate in the auction. The Commission shall "treat the persons filing [pre-July 1997 broadcast applications] as the only persons eligible to be qualified bidders for purposes of [a competitive bidding proceeding.] Section 3002(a)(B)(3) of Balanced Budget Act of 1997 (Emph. added.) Congress therefore made it very clear that it did not intend for the Commission to have the authority to open the bidding up to the world at large. While this clause of the Act plainly precludes new applicants from participating, it leaves open the issue of investors or new participants in existing applicants. The Commission's rules permit minor changes in ownership in pending applications so long as there is not a change in control. The Commission should ensure that any new parties to applications are disclosed prior to the auctions (including any arrangements the parties may have) and that de jure and de facto control of the applicants does not change during the pendency of the applications.

3. The NPRM at Para. 69 indicates that if the winning bidder is found unqualified, a new auction would have to be held which would be open to new applicants. We presume that this reference to the general auction rules is not intended to apply to the pre-July, 1997 applications.^{8/} In the case of those

^{8/} Indeed, there are a number of points where the Commission appeared to be referring only to post July, 1997 filers when it made a broad statement. (E.g., at Para. 62 of the NPRM, the Commission indicates that "Section 309(j) mandates auctions in these services" although earlier it had noted that the Budget Act

applicants, Congress mandated that only the original applicants were eligible to participate in an auction. There is no reason why the disqualification of the winning bidder would or should supersede that Congressional mandate. At a minimum, therefore, any new auction would only be open to original pre-July, 1997 applicants.

More fundamentally, however, there is no need to hold a new auction if the winning bidder is disqualified. We recognize that in other auction contexts the Commission has eschewed the idea of awarding the license to the second highest bidder at the original auction. In part this was because the auctions to date have involved proceedings in which applicants could bid across the country and across frequency blocks, and an applicant who was out-bid in one market or band would likely have directed its dollars to another market. In this context, however, applicants are likely to be involved in only one or a few limited markets. More importantly, the pre-July 1997 cases are so old that the need for expedition should outweigh any desire on the Commission's part to hold a brand new auction. No matter how efficient the Commission has gotten at holding auctions, there is bound to be at least a six month delay in holding an auction and going through the post-auction filing periods. This kind of additional delay on top of the excruciating delays which have already been experienced would

authorized but did not mandate auctions for the pre-July, 1997 filers. The Commission should be careful to separately categorize the groups of applicants when appropriate.

be intolerable.

We propose therefore that, in the event the winning bidder is disqualified, the Commission simply offer the license to the next highest bidder at the original auction, provided the bidder has left its up-front payment on account. (An applicant could withdraw from eligibility for this option by withdrawing its up-front money at the close of the original auction.) If no previous bidder accepts the invitation to take the license at its highest bid, then the Commission would have to hold a re-auction among the original applicants (minus the disqualified applicant), permitting re-submission of up front payments.

4. With respect to the pre-July, 1997 applications, the Commission should not impose the kinds of pre-auction, revenue-maximizing terms which it now applies to other auction situations. The use of auctions here is not intended to raise revenue but to be a fair and efficient way to decide which applicant should get the license. In this context, therefore, there should be no reserve or minimum bid price established by the Commission in advance. On the other hand, it is entirely appropriate to establish an up front payment requirement of at least \$100,000. This would ensure that only serious applicants who are reasonably prepared to pay for the licenses if they win will participate in the auction. In the absence of up front payments, some applicants could simply act as spoilers, bidding the price up for other applicants without any

intention or ability whatsoever to pay for the frequency themselves. The up front payment is the only way to preclude such shenanigans.

IV. Pre- and Post-Auction Procedures

1. The Commission has proposed doing away with the "reasonable assurance" requirement with respect to sites. NPRM at Para. 81. Instead, the Commission would rely on strict enforcement of its construction period requirements. We endorse that approach because in the auction context, no one would pay the winning bid for a license without either being assured that he had a site available or making supreme efforts to get a site later. The auction process itself provides the strong incentive for the winning applicant to carry through and actually construct the station in order to recoup its investment.

Though the Commission did not specifically propose this, the same principle applies to the reasonable assurance of financial qualifications showing currently required of applicants. As with its site, no applicant would bid and pay the going rate for a broadcast permit and then not construct it. The original purpose of the financial qualifications showing was to ensure that applicants who were awarded permits for free would actually go forward and construct them; there is no need for that protection where the winning applicant in effect makes its demonstration with

its dollars when it pays its winning bid. Both requirements should therefore be dropped for all pending and future applications.

2. Dropping these two requirements from broadcast applications would also eliminate a situation which has occurred as a result of the passage of time. Many of the cases which have been through hearings are so dated that the original site assurances and financial assurances are almost surely either out-dated or suspect. Most such assurances are not based on contractually binding commitments but merely on "reasonable assurances" which have tendency to evaporate or become meaningless a decade after the original filing. In many cases, we envision that the bank which issued a reasonable assurance letter is no longer in existence, having long ago been bought up by other banks. Similarly site ownership may well have changed in the many years that applications have been sitting in limbo at the Commission. Accordingly, if the Commission for some reason decides to retain the financial qualification and site assurance requirements, it should open a pre-auction window of 30 days to permit applicants to update the components of their applications which have long become stale. This window would likely preclude disputes about the basic qualifications of applicants after they win the auction.

3. After the window described above, the Commission should also open a window for filing petitions to enlarge issues. As noted above, applicants have been precluded from filing

petitions since the Bechtel freeze was imposed. There is therefore some backup of petitions which need to be filed but have been on hold. Although any such petitions would have to be filed before the auction, the Commission would not have to rule on any of the petitions until an auction winner was established.

Requiring these petitions to be filed in the pre-auction period has several important benefits:

a. Applicants planning to participate in the auction would do so with a fuller knowledge of the issues which would have to be dealt with if they win the auction. If an applicant was likely to be disqualified, it could assess that possibility realistically before the auction and proceed accordingly. By discouraging applicants who are probably going to be disqualified from participating in the auction, the Commission could ensure that the winner of the auction is an entity that will actually be qualified to receive the license. The disqualified applicant would also benefit since it would not have needlessly incurred penalties which might otherwise apply if its winning bid was thrown out as a result of disqualification.

b. The FCC's experience in the lottery context is that losing applicants tend to file petitions to deny against the winning applicant if they know that they will become the winner when the original winner is disqualified. In the cellular context,

once a "second place" designee was eliminated from the lotteries, the number of petitions dropped dramatically. By the same token, we could expect here that losers in the auction would target the winner in the auction for petitions. However, by requiring that any petitions to be filed before the auction, the Commission would discourage the filing of "targeted" petitions. Litigious-minded applicants would be reluctant to file petitions against all the other applicants in the pre-auction period because most of that effort would be wasted. We believe the total number of petitions filed would actually drop, and in any case the Commission would only have to deal with the pre-auction petitions that had been filed against the winning applicant. This "all cards on the table" approach should conduce to a sensible, fully informed auction and far fewer game-driven petitions to enlarge issues.

c. The Commission, finally, should permit settlements of pending cases to take place for some period after the rules in this proceeding are adopted and before the auction. One of the deterrents to settlement has been the fact that no one knew whether the applications on file were going to be subject to auctions or to further comparative evaluation. Once the ground rules are established, applicants should be given one last chance - free of the anti-collusion rules- to settle these cases, particularly the ones that have been through hearings.

d. Payment of Winning Bid. Consistent with recent

Commission practice, the Commission should not permit installment payments of the winning bids but should require the payment (less any appropriate discount) to be paid before a permit is issued and before the losing applications are dismissed. This process ensures that if the winning bidder does not pay as required, there would still be a pool of applications on file to receive the license without having to open up the station for new applications.

V. Bidding Credits

As indicated above, we strongly believe that the Commission should award bidding credits for small businesses. Such a credit would further the mandate of Congress to ensure that small businesses, along with other designated groups, have a fair opportunity to participate in auctions. 47 U.S.C. 309(j)(4)(D) In this case the need to ensure small business involvement in the broadcast ranks is especially critical. Diversity of media control has always been a fundament of Commission public interest policy. Policy Statement on Comparative Broadcast Hearings, 1 FCC 2d 393, 394 (1965); Multiple Ownership Rules, 22 FCC 2d 306, 311 (1970), recon. granted in part, 28 FCC 2d 662 (1971); Taft Broadcasting Partners Ltd. Partnership, 7 FCC Rcd 2854 (1992). In recent years, as a result of the elimination of ownership restrictions by the '96 Telecom Act, the concentration of broadcast properties in the hands of a few companies has accelerated rapidly. It is therefore more important than ever to ensure that the few new broadcast licenses